
THE STATE OF WASHINGTON



Investor and Rating Agency Presentation
January 19, 2016



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I. Economic and Revenue Forecast



November 2015 Forecast Overview

The November 2015 Washington Forecast reflects expectations for steady employment gains.

The Washington economy shows solid growth with employment rising in most sectors.

- Employment gains and lower unemployment claims indicate a strengthening labor market in Washington. Washington employment is expected to increase by 2.8% in 2015.
- Nominal personal income growth is expected to increase by 5.4% in 2015, averaging 5.2% annually from 2016 through 2019.

Downside risks outweigh upside risks. Risks to the baseline forecast include a slowing global economy triggering a sharp downturn in the U.S. stock market. The resulting decline in U.S. consumer confidence could result in less spending, a softer labor market and slower growth in personal income.

General Fund-State revenue forecast for the 2015-17 Biennium has been increased by \$113 million to \$37.204 billion, 10.5% higher than the previous biennium. The 2017-19 forecast has been increased by \$29 million to \$40.567 billion (\$41.327 billion including the Education Legacy Trust Account and Opportunity Pathways Account), a biennial growth rate of 9.0%.



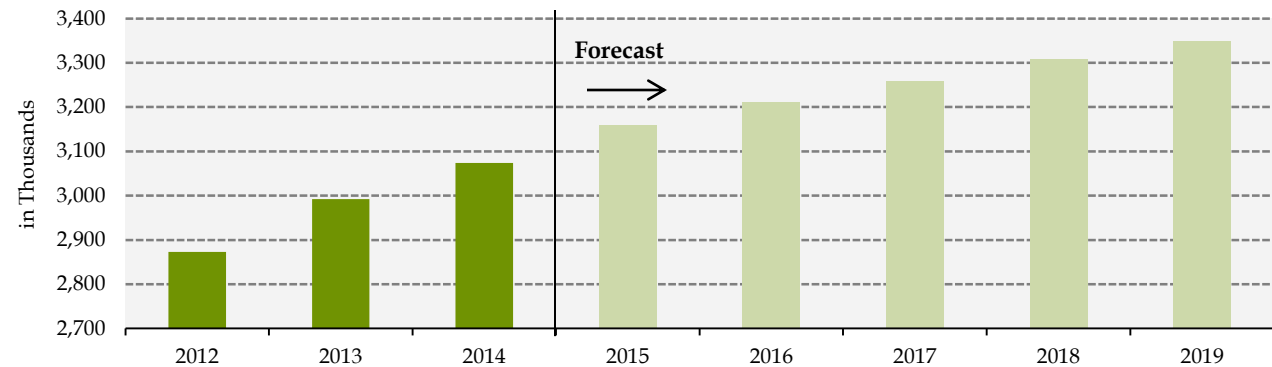
Employment and Income

The State's unemployment rate declined to 5.3% in November, from 6.3% in November 2014.

The November Seattle area unemployment rate was 4.2%.

Washington's personal income growth in 2014 was 7th highest in the nation, although growth slowed to the U.S. average in the 3rd quarter of 2015.

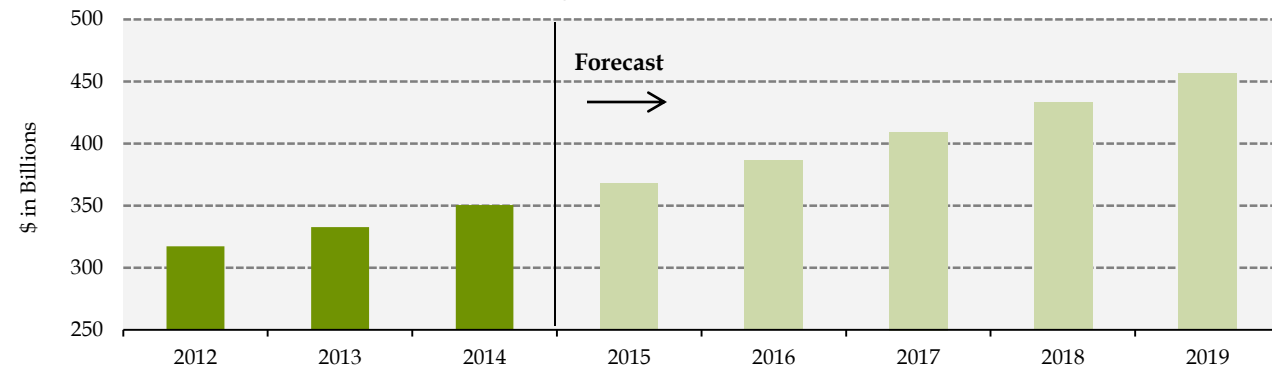
Washington Nonfarm Payroll Employment



Source: ERFC November 2015 Forecast; historical data through 2014

- Employment is expected to grow by 2.8% in 2015.
- Washington personal income grew by 5.8% in 2014, significantly faster than the national average of 4.4%, slowing to 5.4% (SAAR) in 2015.

Washington Personal Income



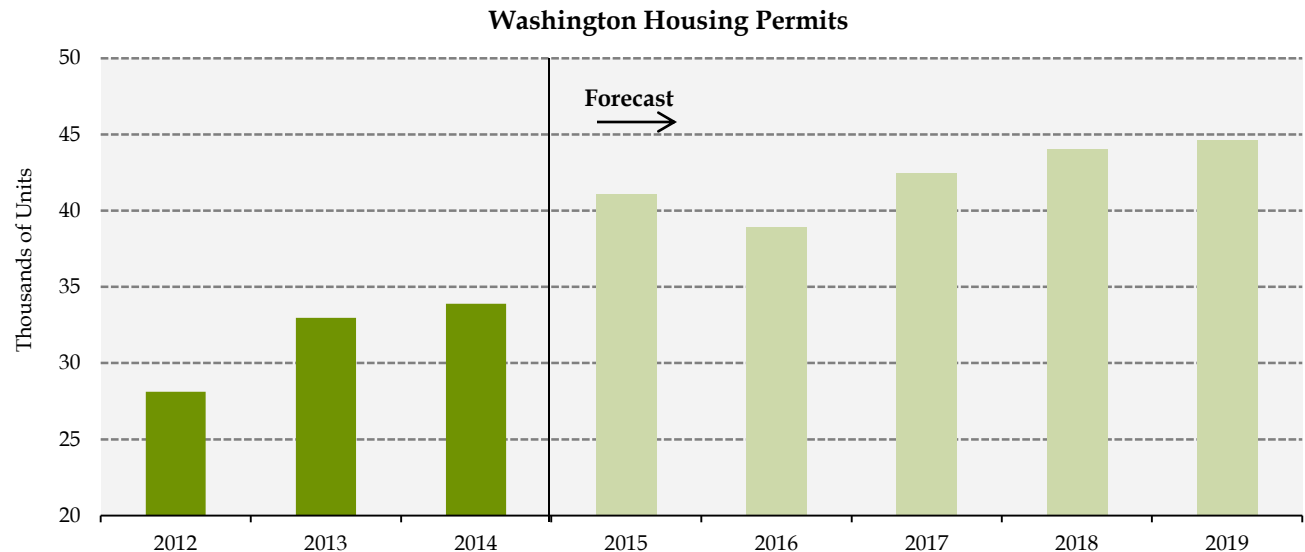
Source: BEA, ERFC November 2015 Forecast; historical data through 2014



Housing Sector and Inflation

The Case-Shiller home price index for Seattle is 8.8% higher than the previous October and 39.1% higher than the November 2011 trough.

- Housing permits averaged 38,400 units (SAAR) in October and November; the forecast expected an average rate of 36,400 units for the fourth quarter as a whole.



Source: Census, ERFC November 2015 Forecast; historical data through 2014

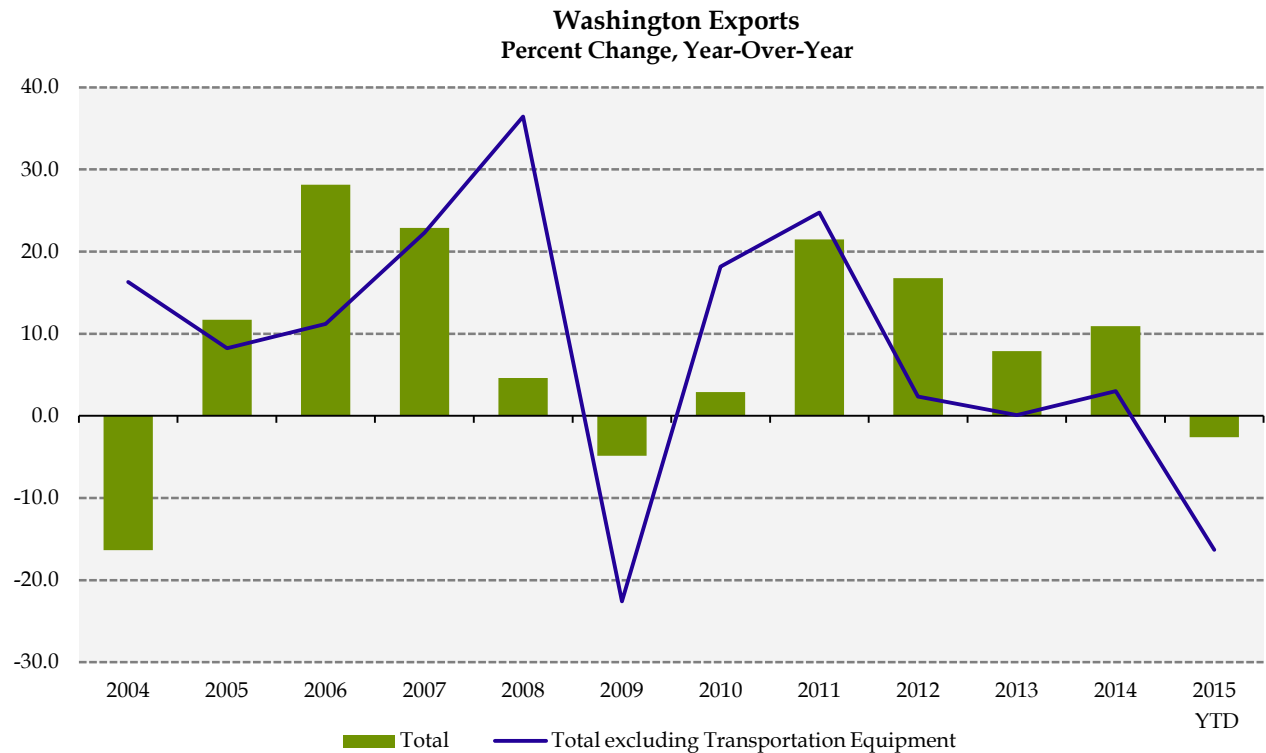
- Seattle area consumer price inflation remains tame at an annual rate of 1.2% in October, thanks to falling energy costs. Seattle shelter costs increased by 5.1% over the year compared to 3.2% for the nation.



Washington Exports

Exports declined by 2.6% in the first eleven months of 2015 compared to the same period last year, likely reflecting the impact of a stronger dollar and a slowing Chinese economy.

- Transportation equipment exports (mostly Boeing planes) for January – November 2015 increased by 7.7% compared to the same period in 2014 but all other exports declined by 16.3%.



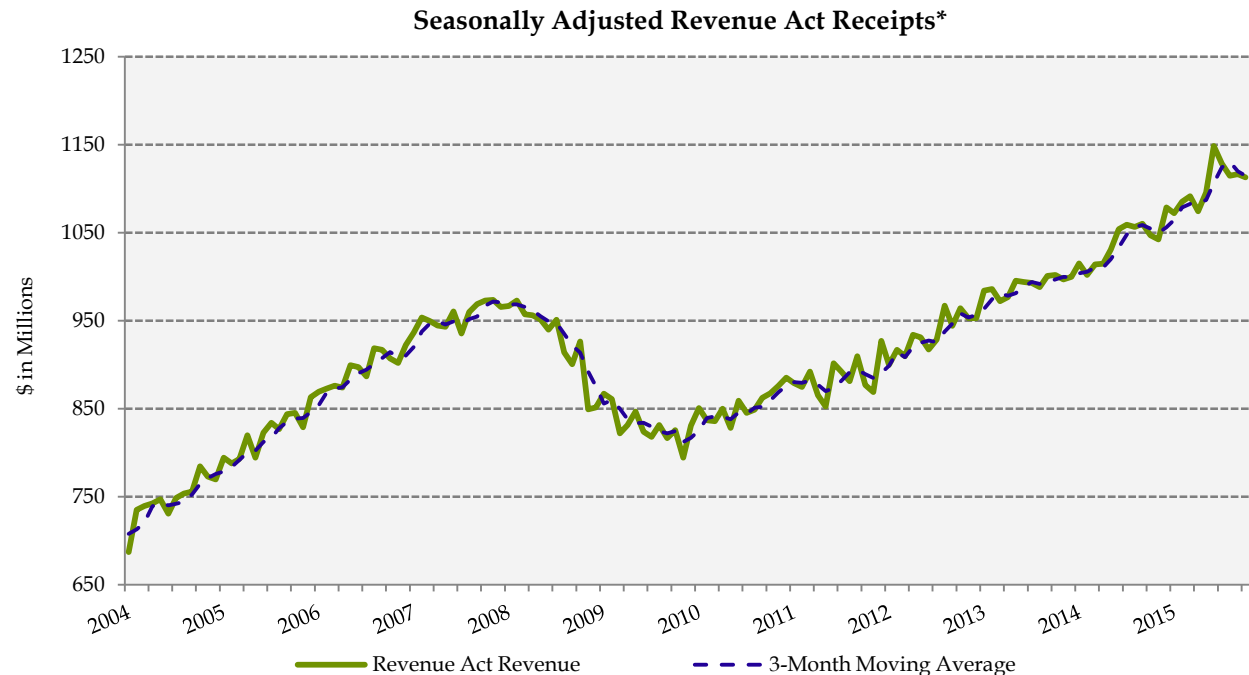
Source: WISER Trade Data; data through November 2015



Revenue Collection Performance

After growing by 7.1% Y-O-Y in the second quarter, third quarter Revenue Act collections growth slowed to 5.8%.

- Growth in seasonally adjusted Revenue Act collections has been strong in recent months, exceeding forecasts. Third quarter collections growth slowed after a strong second quarter.
- Collections from November economic activity increased by 8.0% Y-O-Y.



*Current definition, adjusted for large payments/refunds and timing of payments
Source: DOR, ERFC; January 2004 through October 2015 preliminary activity



Retail Sales Tax and B&O Receipts

Adjusted sales tax collections were up 6.6% Y-O-Y (preliminary) in the 3rd quarter.

Sales tax growth has been boosted by construction activity and auto sales.

Adjusted B&O tax collections were up 3.5% Y-O-Y (preliminary) in the 3rd quarter.

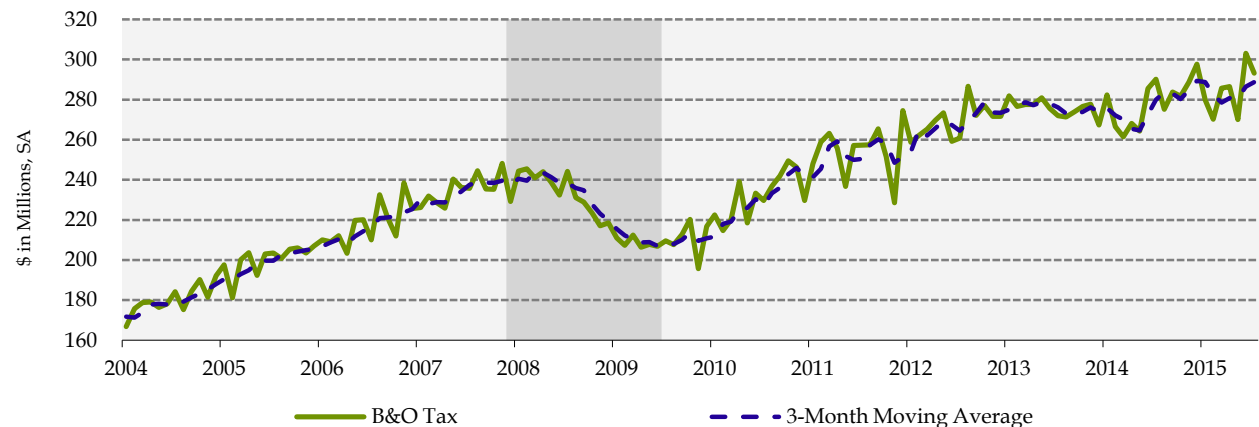
B&O tax growth has been slowed by falling oil prices.

Washington Retail Sales Tax Receipts*



*Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change.
Source: ERFC; Monthly data through October 2015 preliminary activity

Washington B&O Tax Receipts*



*Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds. Note the July 2013 removal of the surcharge on service businesses.
Source: ERFC; Monthly data through October 2015 preliminary activity.



REET Activity and Property Taxes

Residential taxable activity has been growing rapidly for the last three quarters but future growth is expected to slow due to a lack of inventory.

Large commercial property sales are also expected to slow.

- REET receipts grew by 27% in FY15, due mainly to a surge in large sales of commercial property. In the two months since the forecast, receipts are exceeding the forecast by 12%.



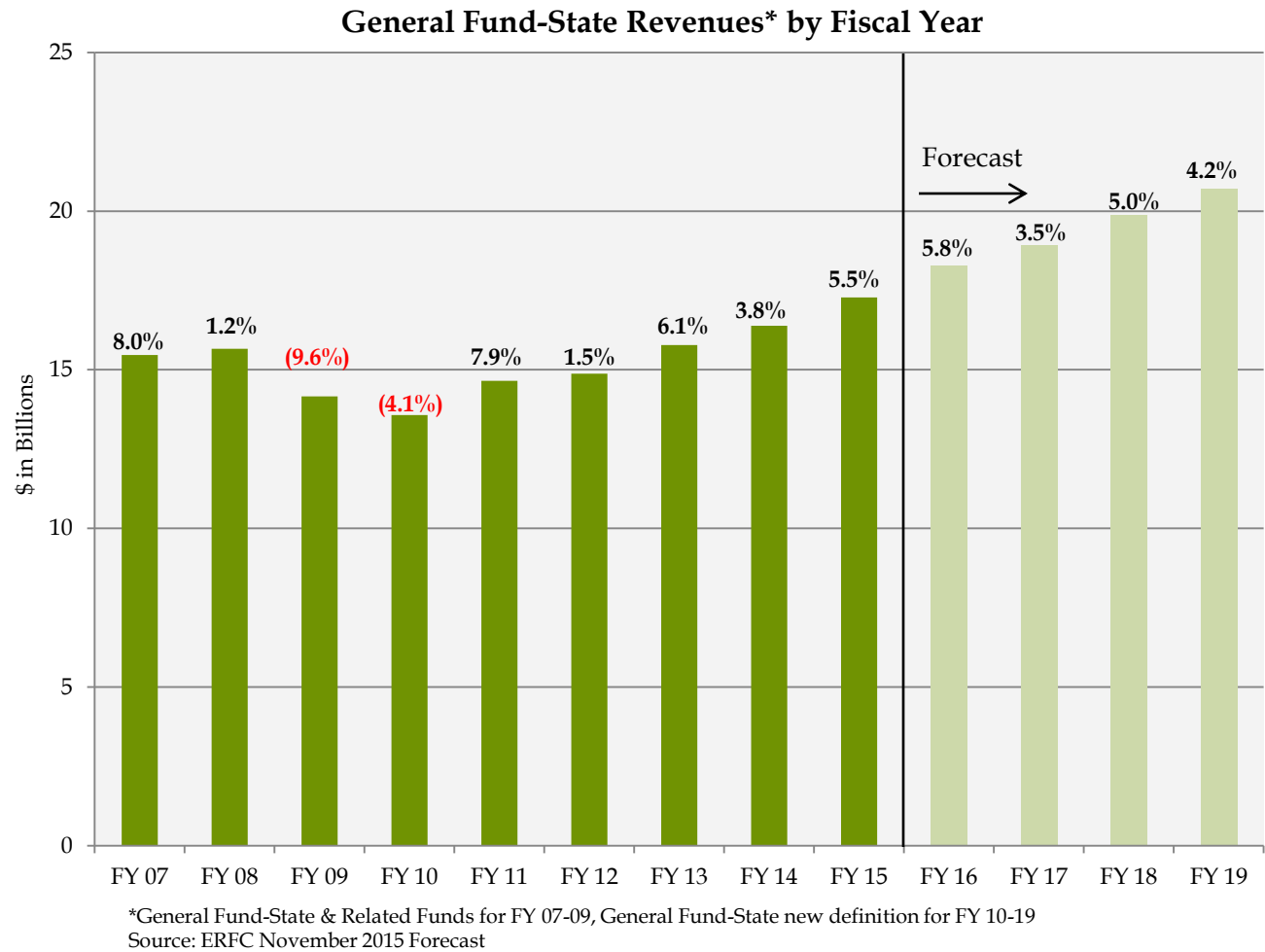
Source: ERFEC; Monthly data through November 2015 preliminary activity

- Property taxes grew by 2.3% in FY15 and are forecasted to grow by 2.1% in FY16.



Forecasted Revenue

The November Forecast adds \$113 million to General Fund-State revenues in the 2015-17 Biennium and \$29 million to the 2017-19 biennium.





II. 2016 Legislative Session



2016 Legislative Session

The 2015 Legislative Session resulted in an operating budget with significant new investment in education funding and a transportation revenue package for infrastructure.

The 2016 Legislative Session is expected to result in modest adjustments to the biennial budget.

Fiscal issues dominated the 2015 Legislative agenda:

- The 2015-17 biennial operating budget:
 - Funded K-12 basic education items required by McCleary;
 - Preserved core government services for vulnerable citizens;
 - Added funding for mental health services; and
 - Made college more affordable.
- Connecting Washington, a major new transportation revenue package:
 - Plans for new infrastructure for economic development and congestion relief; and
 - Adds funds to maintain current transportation infrastructure.

2016 Session Challenges:

- Modest budget adjustments for caseload changes and other mandatory requirements; limited policy adjustments
- Legislative plans to address remaining components of K-12 funding changes and the Supreme Court's order in the McCleary decision.



Near General Fund-State 2015-17 Budget Balance Sheet

Following the November Forecast, FY 2017 year-end balances are expected to exceed \$1.6 billion, with nearly \$900 million in the Budget Stabilization Account.

2015-17 Enacted Budget General Fund-State, Education Legacy Trust, and Opportunity Pathways and Budget Stabilization Account (Dollars in Millions)	
RESOURCES	
Beginning Fund Balance	\$ 1,011
November 2014 Forecast	36,990
February 2015 Forecast	135
June 2015 Forecast	326
September 2015 Forecast	144
November 2015 Forecast	101
Current Revenue Totals	\$ 37,696
2015 Revenue Legislation	\$ 219
Enacted Transfer to Budget Stabilization Account	(372)
Enacted Fund Transfers/Other Resource Adjustments	219
Total Resources (including beginning fund balance)	\$ 38,773
EXPENDITURES	
2015-17 Enacted Expenditures	\$ 38,218
Assumed Reversions	(172)
Total Expenditures	\$ 38,046
RESERVES	
Projected Ending Balance	\$ 727
Budget Stabilization Account Beginning Balance	513
Transfer from General Fund and Interest Earnings	378
Projected Budget Stabilization Account Ending Balance	\$ 891
Total Reserves (Near General Fund plus Budget Stabilization)	\$ 1,618



Governor's Proposed 2016 Supplemental Budget

In December 2015, the Governor proposed a 2016 Supplemental Budget that proposes modest adjustments to the adopted budget.

The Governor noted that forecasted revenue had increased by \$245 million since June 2015, while the State's costs for the biennium were forecast to increase by \$700 million.

The proposed budget includes additional expenditures to provide resources for:

- Caseload increases;
- Mental health needs;
- Emergency response to 2015 wildfires.

Funding proposed to be provided by:

- Drawing on BSA for \$178 million to cover emergency response to wildfires;
- Capturing and reprogramming savings in the underlying budget;
- Transferring unappropriated dedicated fund balances to the general fund.



2015 Developments Regarding the K-12 McCleary Decision

*Supreme Court,
2012: "The state is
not making ample
provision for the
basic education of
Washington's K-12
public school
students..."*

July 2015: The Joint Select Committee of the Legislature reported to the Supreme Court that the 2015-17 Biennium Budget fulfills the State's obligations under the McCleary orders, including

- Fully funding the enhanced statutory formula for materials, supplies and operating costs in the 2015-16 school year;
- Funding full implementation of all-day kindergarten in the 2016-17 school year;
- Making progress toward funding K-3 class size reductions with the remaining increment to be funded in the next biennial budget;
- Establishing a new school construction grant program to provide State assistance to construct classrooms for the implementation of K-3 class size reduction and all-day kindergarten.



Developments Regarding the K-12 McCleary Decision (cont'd)

The Supreme Court issued an order pursuant to its previous finding that held the State in contempt for failing to explain how it plans to fully fund all elements of basic education by 2018.

August 2015

- The Supreme Court fined the State \$100,000 per day until it adopts a complete compliance plan, payable into a segregated account for basic education. OFM has been accounting for this fine.
- The order recognizes the 2015-17 Budget makes progress;
- The order also says the State is not on course to meet its class-size reduction goals by 2018, did not show how it will pay for facilities needed for all-day kindergarten and smaller class sizes, or how to pay for the cost of recruiting and retaining competent teachers, administrators and staff.

Subsequently,

- Plaintiffs have suggested actions the Supreme Court should take. The State has opposed these remedies on the basis that they are unconstitutional or that the Supreme Court lacks authorization.
- The Governor established an informal bipartisan work group of legislators who introduced legislation to establish an education funding task force to make recommendations to the Legislature prior to the 2017 session.



Initiative 1366

Initiative 1366 was approved by the voters in the November 2015 election.

In November 2015, the voters approved an initiative that reduces the State's sales tax rate from 6.5 percent to 5.5 percent effective April 15, 2016, unless the Legislature refers to voters a constitutional amendment requiring two-thirds legislative approval or voter approval to raise taxes and a majority legislative approval for fee increases.

- OFM estimates dropping the sales tax rate from 6.5 percent to 5.5 percent would reduce sales tax revenue by an estimated \$163.2 million in the 1.5 months of collections in Fiscal Year 2016 and by \$1.43 billion in Fiscal Year 2017, the first full year of collection.
- Following the election, a lawsuit was filed in King County Superior Court challenging the constitutionality of the Initiative. In January 2016, a Court judge issued an order that the initiative is unconstitutional and, therefore, void. The State has filed an appeal of the order to the State Supreme Court.



III. Transportation



New Law Revenue (Connecting Washington)

The 7¢ fuel tax increase in August places Washington State 4th highest in the nation.

Aggregate state MVFT taxes to total 49.4¢ per gallon on July 1, 2016.

The transportation package includes a \$5.3 billion GO bond authorization, payable from MVFT and vehicle-related license fees. Issuance begins in 2017-19.

July 2015, the Legislature passed a new law revenue package called Connecting Washington.

New Law Revenues include:

- 7¢ fuel tax increase effective August 1, 2015;
- Additional 4.9¢ fuel tax increase effective July 1, 2016; and
- License Fees by weight for trucks and cars increases July 1, 2016.

Connecting Washington capital projects include:

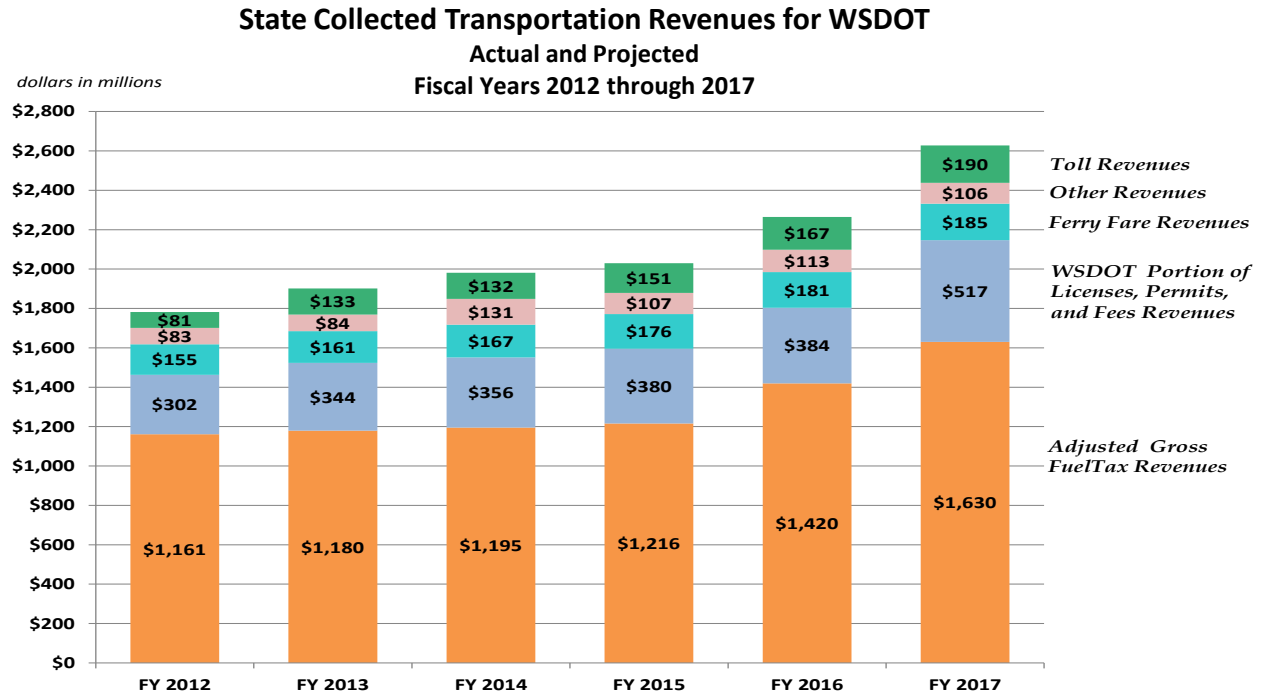
- SR 167/SR 509 Puget Sound Gateway (\$1.9 billion);
- SR 520 West End (\$1.6 billion);
- I-405 Renton to Lynnwood (\$1.2 billion);
- Highway system preservation (\$1.2 billion);
- US 395 North Spokane Corridor (\$0.9 billion); and
- 127 other projects (\$5 billion).



Transportation Revenues and Appropriations

The November forecast projected 2015-17 revenues of \$5.7 billion, including \$677 million from Connecting Washington.

Connecting Washington projects are starting in the 2015-17 Biennium, with limited construction.



The 2015-17 enacted and Governor proposed transportation budgets provide:

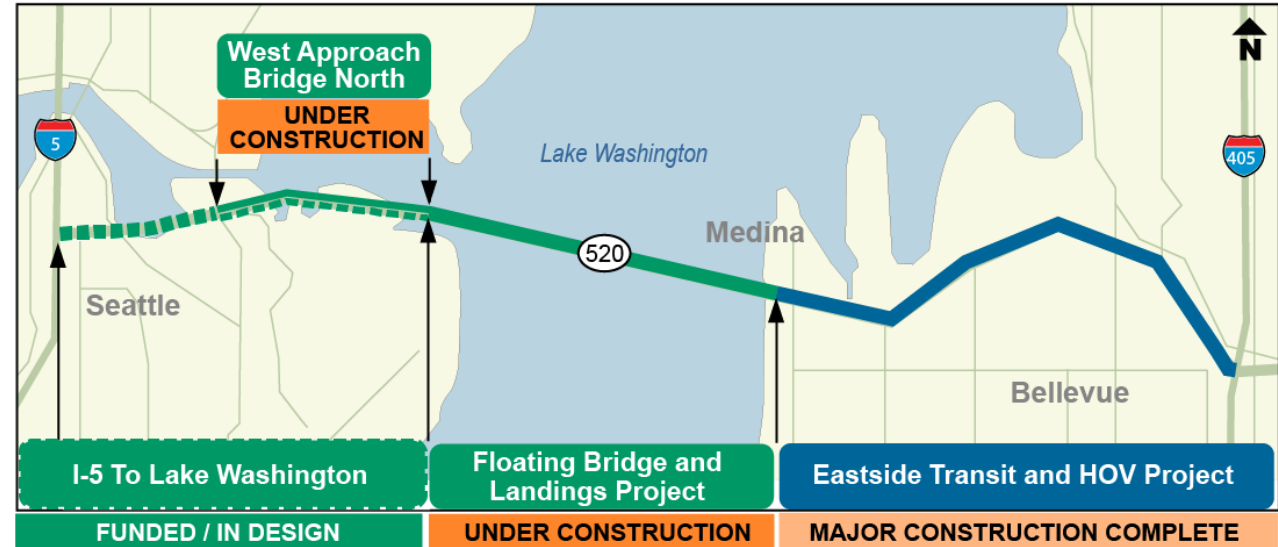
	2015-17	Governor's Proposed
Operating Budget	\$1.6 billion	\$1.6 billion
Capital Budget	\$3.9 billion	\$4.2 billion
Total Appropriation	\$5.5 billion	\$5.8 billion



SR 520 Corridor Project - Update

All pontoons are now in position in their final configuration on Lake Washington.

The new SR 520 floating bridge is expected to be open to traffic in Spring 2016.



- Crews completed the West Connection Bridge to connect the existing four lanes in Seattle with the new, six-lane floating bridge.
- Construction is underway on the West Approach Bridge North.
- Connecting Washington provides approximately \$1.64 billion for the remaining SR 520 components, including a new six-lane corridor from I-5 to the floating bridge, a new Portage Bay bridge, a complete West Approach Bridge, a reversible transit/HOV ramp to I-5, two neighborhood connecting lids, and other corridor improvements.



SR 520 Corridor Project: Actual Traffic and Revenue vs. Projections

SR 520 gross and net toll revenues are on target.

Traffic and Toll Revenue*	Forecast	Actual	Variance
Toll Transactions			
FY 2015	21,882,000	22,019,770	+ 0.6%
FY 2016 through Nov.	9,499,000	9,687,846	+ 2.0%
Gross Toll Revenues			
FY 2015	68,995,000	69,383,209	+ 0.6%
FY 2016 through Nov.	30,855,000	31,335,559	+ 1.6%
Net Toll Revenues			
FY 2015	55,115,000	54,907,229	- 0.4%
FY 2016 through Nov.	21,381,000	22,695,864	+ 6.1%

*FY 2015 data is compared to the November 2014 forecast and FY 2016 data is compared to the November 2015 forecast



Project Updates

Bertha, the SR 99 tunneling machine has resumed excavating. STP's latest schedule expects the tunnel to open in April 2018.

Bertha is mining toward an underground block of concrete about 450 feet north of the access pit. This area is the third and final protected maintenance stop, or safe haven, constructed prior to the start of tunneling. According the design-builder's most recent schedule, the machine will spend up to one month at the safe haven while crews perform maintenance and make final adjustments.

On January 14, 2016, after a sinkhole developed in the work zone, WSDOT notified STP to suspend tunneling until STP completes a detailed analysis and modifies tunneling operations to ensure appropriate ground control.

It is not known how damage to the tunneling machine will affect the project's budget. The responsibility for additional costs and delays may be subject to litigation.

I-405 Express Toll Lanes operational in September, 2015.

In September 2015, seventeen miles of express toll lanes opened on I-405 between Bellevue and Lynnwood. Toll rates adjust dynamically from a minimum of 75 cents to a maximum of \$10 based on traffic congestion to keep the toll lanes moving at 45 mph or faster.



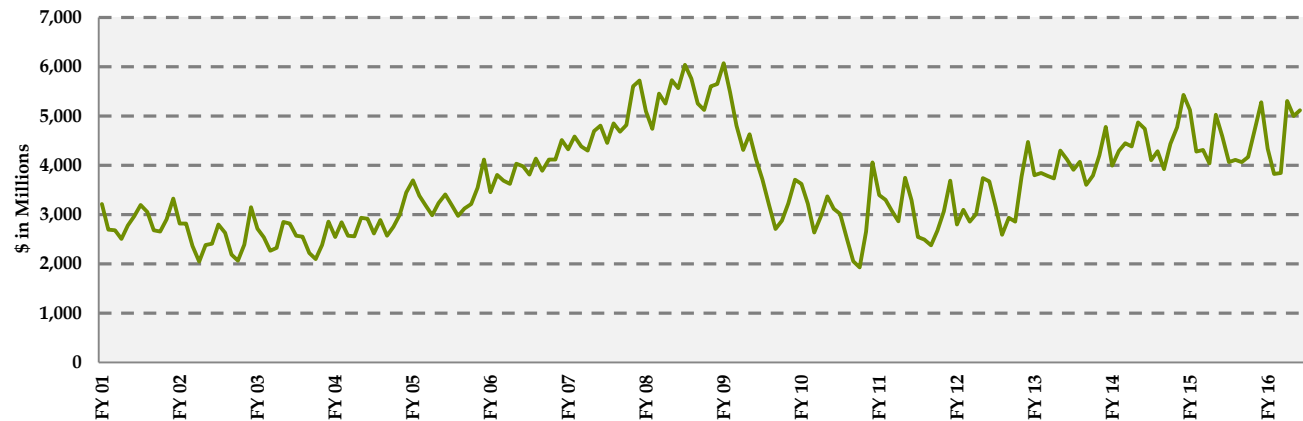
IV. Investments and Fund Balances



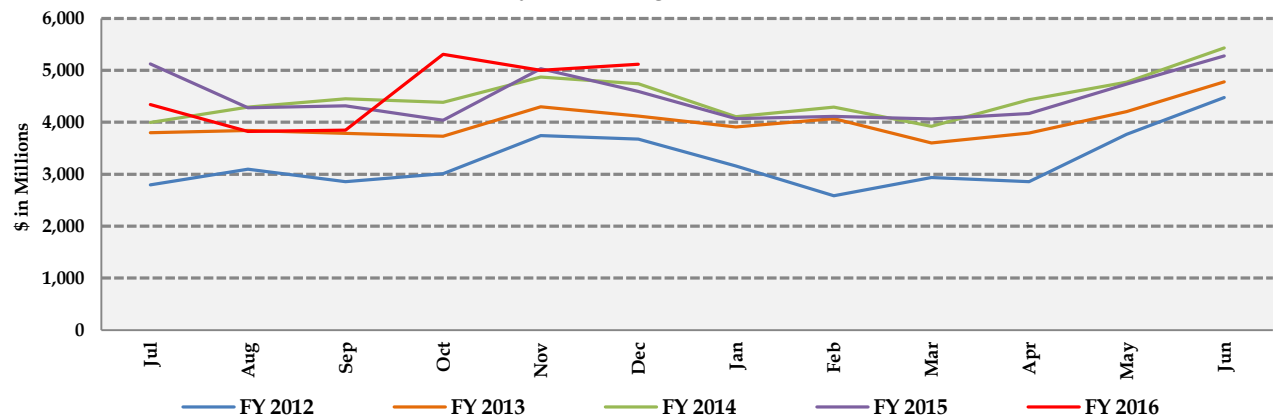
Treasury/ Trust Fund Balances

The State has strong cash management policies and sound liquidity.

Treasury/Trust Month Ending Balances
July 2000 through December 2015



Treasury/Trust Month Ending Balances
July 2011 through December 2015





Investment Practices are Conservative

The State maintains conservative investment practices and policies.

Average Daily Balances by Security Class				
	December 2015		January 2015 - December 2015*	
Treasury and Treasurer's Trust Funds	(\$ in Thousands)	(%)	(\$ in Thousands)	(%)
U.S. Agency	2,113,995	38.4	2,136,493	48.1
U.S. Treasury	1,404,605	25.5	1,178,535	26.5
Repurchase Agreements	--	--	--	--
Bank Deposits	729	0.0	44,659	1.0
LGIP Deposit	1,833,748	33.3	934,346	21.0
Certificates of Deposit	149,787	2.7	148,914	3.4
	5,502,864	100	4,442,947	100
Weighted Average Maturity:		521 days		
LGIP	(\$ in Thousands)	(%)	(\$ in Thousands)	(%)
U.S. Agency	4,935,993	47.0	5,125,741	52.5
U.S. Treasury	1,325,038	12.6	1,035,799	10.6
Repurchase Agreements	3,192,449	30.4	2,656,172	27.2
Bank Deposits	981,556	9.3	886,173	9.1
Certificates of Deposit	69,424	0.7	65,696	0.7
	10,504,460	100	9,769,581	100
Weighted Average Maturity:		35 days		

* Average Balance

Source: Office of the State Treasurer



V. Debt Issuance Plans



Forward Calendar

The Office of the State Treasurer's plans for sales of general obligation bonds. Refundings will be executed as market conditions permit.

Debt Issuance Plan Estimates Through Fall 2016

February 2016	Various Purpose GO	\$	327,000,000
	MVFT GO	\$	204,000,000
	Total	\$	531,000,000
March 2016	COP State and Local New Money / Refunding	\$	65,000,000
July 2016	Various Purpose GO	\$	600,000,000
Fall 2016	MVFT GO	\$	130,000,000

Estimates as of January 19, 2016.
Totals may not add due to rounding.

Source: Office of the State Treasurer.